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# Simplifying Small Businesses and Midsize Companies to Unlock Growth



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Business simplification is an imperative for companies of all sizes. But it is especially critical for growing small and midsize enterprises. As they expand, they gradually add new software and processes that introduce complexity into their operations. This web of piecemeal solutions can bog down efficiency and inhibit growth. In this white paper, experts discuss how companies can untangle technological complexity and achieve business simplification in order to thrive. Included are the results of a survey called “Simplifying the Future of Work Study,” which culled responses from small and midsize businesses. The survey, compiled by Knowledge@Wharton and SAP in 2014, considered the impact and importance of simplification.

Whether you are a company with 10 or 100,000 employees, running a business is getting quite complicated these days. An interconnected global economy has opened opportunities for Main Street businesses to sell to overseas markets, but they come with challenging complexities in logistics, currency translation, taxation, labor regulations and other areas. Even expanding locally tacks on complexity from an influx of vendors, customers and additional staff. Meanwhile, digital technologies bring in massive amounts of data that need to be sorted through to maximize business strategies while real-time user feedback is also changing the way companies operate.

Indeed, the dawning of the digital age means that the game has changed. And shifts are not only external, but also internal. As small and midsize enterprises (SMEs) grow, they tend to gradually bolt on new software solutions,

hardware configurations and business processes — perhaps adding an inventory tracking program here, a customer database there and a human resource package later on. But a patchwork of disparate systems can become outdated, unwieldy and hard to keep in sync. Does this approach really lay the best foundation for growth?

“Business simplification is much more important for SMEs today than it was 10 years ago,” says Rodolpho Cardenuto, President of Global Partner Operations for SAP. “The world is getting more complex. Companies who don’t deal with that complexity today will begin to fail. It may be too late once they decide to deal with it.”

Competing in a global marketplace brings complexity. For one, companies face new or changing policies across the globe. Cardenuto

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notes that the U.S. is becoming more regulated, with Europe and Latin America even more so. Thus, simplifying business systems and processes is critical as SMEs expand — and could spell the difference between tepid and robust growth.

Yet many growing companies do not fully realize how their technology, or lack thereof, is holding them back. “If you ask many SMEs directly, they may say, we’re not complex, we are a very simple business,” Cardenuto says. “They only have two metrics. Customer intimacy — they know the customer, and know what they want — and cash flow. They open the register once a day and see how much cash they have.” But this comfortable scenario fades when a company tries to get larger, which it must do just to stay in business. “You can’t survive if you don’t grow,” notes Cardenuto. “You’ll be taken over by the big chains, or by big new ideas.”

Cardenuto traces a common trajectory for an expanding business, whether it is a retailer, manufacturer or services firm. “You go from serving a small community to a bigger community. Then you go from in-state to out of state and you say, ‘now I need two tax reports’. Then you go out of the country and have different currencies; you have different legislation.” And although the owner may be serving as “the CEO, the CFO, and the sales person” simultaneously, staff size must grow, bringing with it human resources issues. The number of suppliers increases as well, so re-negotiating contracts becomes more complicated and time-consuming. Furthermore, if a growing enterprise wants to

do an IPO, “now you have another complexity: How are you going to report to Wall Street?” says Cardenuto.

As the business owner wrestles with these new issues, ironically one of the business’s original strengths — customer intimacy — begins to weaken, because the accumulating complexity distances the founders from their customers. The solution, says Cardenuto, is implementing integrated technology early on, in order to prepare one’s business for a complex world. “Without a well-integrated process, it’s very difficult for the owner to focus on ultimate business value, which is the customer in the end,” he notes.

Tyler Wry, a Wharton professor of management, agrees that business and technological complexity can hamper a company’s prospects if not dealt with appropriately. “Any time you get more parts moving, there’s more to coordinate. And if you don’t have a sensible plan for how you’re going to integrate these things, they tend to become a little bit unwieldy in practice. So any time you’re going to ratchet up complexity without systems in place to manage those effectively, you run the risk of getting into trouble.”

The results of a “Simplifying the Future of Work Study” survey, compiled by Knowledge@Wharton and SAP in 2014, reflected a substantial awareness among small and midsize business owners of the negative effects of complexity: 72% of respondents said that business process complexity or decision-making complexity have inhibited their business’s ability to meet its goals, with over 30% saying it “strongly inhibited” that

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— **Therese Flaherty**

ability. And 58% pointed directly to technology complexity as the culprit.

Therese Flaherty, director of the Wharton Small Business Development Center, notes that technology provides the necessary helping hand to SMEs when human limits are taxed to capacity. “As businesses grow from being startups and a very small team, they get to a point where the CEO, the founder, and the founding team can’t really manage by knowing everything and everyone. ... You need to start managing with data and information, otherwise you lose control of the whole enterprise.”

To be sure, many SMEs that realize they need technology will move from manual processes to automation. But after a time, they outgrow these applications and become saddled with the limits of such “legacy software.”

EJ Jackson, global head of SAP Anywhere, notes that companies that still use a basic spreadsheet for recordkeeping, for example, may be missing an opportunity to reduce costs or expand capabilities. Using a spreadsheet “to connect customer relationship management, salesforce activity, and digital marketing is very manual and labor intensive, and is prone to errors and adds complexity,” he says. You have to periodically ask yourself if you “remembered to do the spreadsheet download at the right time in order to upload the right data into this other system?”

Wharton’s Flaherty agrees that older business software has sometimes been more of a hindrance than a help when it comes to business growth, for firms of any size. She cites “knowledge management systems which for 20 years kept being put in ... and then no one looked back at them because there

wasn’t a good way to access the information.” She adds that technology is “starting to be indispensable. There’s nothing like IT, and it’s easier now to adapt the system to your needs than it ever was before.”

Jackson notes that SMEs today need three things: access to real-time data; real-time connections to customers, partners and suppliers; and a “connected technology ecosystem” that orchestrates all departments within the entire company. For example, if an item is placed in inventory, the marketing department should automatically know to start promoting it. “Those are table stakes,” he says. “If you don’t have them, you’re going to struggle to grow and you’re going to be fighting to survive.”

## The Case of Visual Communications

One company that has simplified its technology to achieve robust business growth is Visual Communications Co., or VCC, a leading California manufacturer of light pipes and LED, neon and incandescent indicator lights.

VCC’s top management wanted to streamline its production and sales order management processes, and automate material planning and procurement. They also sought to improve the quality of their reporting to enhance decision-making, and get rid of disparate systems that were draining resources. The goal was to deploy technology that would support VCC’s rapid growth.

The company chose a cloud and browser-based solution with remote connectivity that is easily accessible from mobile devices. By doing so, they avoided new hardware investments.

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*“Think and plan from the beginning on how to be simple. If you don’t incorporate that from the very beginning, it’s going to cost you at least twice as much.”*

— Rodolpho Cardenuto

The solution was scalable and offered fast implementation. Plus, it had fully integrated customer relationship management and enterprise resource planning functionality.

Within two years, VCC expanded from 15 to 150 employees, acquired two divisions, and grew revenue by over 300% while successfully managing the increasing size and complexity of its business. Executives reported better management of sales orders; improved production outcomes of 500%; and better analysis of product line profitability because of the new reporting capabilities. They also experienced more efficient inventory management and forecasting capability.

## In Digital, SMEs Need to be Easy Partners

In November 2014, Chinese e-commerce giant Alibaba held a “Singles’ Day” sales campaign, similar to the U.S.’s Black Friday or Cyber Monday. It was a roaring success that attested to the power of e-commerce. “They did \$1 billion in business in the first 17 minutes,” says SAP’s Jackson. Here is another eye-popping statistic: This year, Google disclosed that more searches are now taking place on mobile devices than on computers in 10 countries, including the U.S. and Japan.

In Jackson’s view, society’s mass adoption of digital technology goes hand in hand with what he sees as the need for SMEs to embrace it as well. “If you are not participating in concepts such as social marketing, you’re missing out on substantial revenue opportunities.” He points to annual double-digit and triple-digit growth in e-commerce adoption and sales.

Flaherty adds: “In smaller businesses, we’re certainly seeing, at the startup level, [technology] letting a small team do things that a small team could never do.” Indeed, today’s startups can launch businesses with much less capital investment than in the past due to digital tools such as social media and crowdfunding.

Jackson says even a small manufacturer with an “old-school” production process needs to use technology to connect with suppliers and customers, many of whom are going digital. If you are an organization that becomes perceived as hard to do business with — because you use manual processes and are high-cost — your customers will build that into their pricing, or may turn to your competition if they are simpler to work with.

Even some high-tech startups, although they are working on cutting-edge products for consumers or industry, may not be achieving technological simplification when it comes to their internal operations. Wharton’s Wry speculates that when it comes to startups that are “outward-facing tech” founded by engineers or computer scientists, “while they would have all the competencies in terms of being ratcheted up on the tech, [simplification] may not be something they attend to as closely as MBA-manager-based startups that are really attentive to internal dynamics.”

## Deciding to Simplify

There is evidence that growing companies see the need to leverage technology in the near future. While about half of those surveyed in the “Simplifying the Future of Work Study”

believe that business simplification is of strategic importance for them right now, the percentage rises to 65% when asked if they believe it will be of significant strategic importance within the next three years. Another telling statistic from the survey: At present, only 19% of small business owners access information through self-service tools when they are making decisions. Yet 47% of respondents believe they will be using this kind of access within the next three years.

Cardenuto says that some SMEs, when asked about system upgrades, will respond with ‘I’ll deal with that later. My CEO, or, the owner, is not necessarily into technology.’ But he argues “technology is the big simplifier — for our lives, for our business, for everything that we do. And it’s no different for SMEs. You can’t just postpone the technology investment. It has to be on the same level as any other investment that you are doing for growth.” Cardenuto notes that the most successful SMEs he has encountered are those that start out with a technology mentality.

Jackson’s advice to SMEs is that they leverage cloud solutions. It is “probably the fastest way to market for most SMEs. That gets them to that vision or that roadmap of being digital, connected, and able to grow their business.” Flaherty notes that one of the advantages of cloud services is that a small business’s information is then not vulnerable to unforeseen events such as power outages, since cloud data centers have back-up generators. Cardenuto agrees that the cloud is a viable solution, pointing out that it levels the playing field for enterprises of all sizes.

“It’s easy to get complex if you don’t think simple first,” Cardenuto adds. He explains that it’s more difficult and costly for an enterprise to streamline and integrate its processes at a later stage, when it has already spent years accumulating complexity. “Think and plan from the beginning on how to be simple. If you don’t incorporate that from the very beginning, it’s going to cost you at least twice as much.” ■

This article was produced by Knowledge@Wharton, the online business journal of The Wharton School of the University of Pennsylvania. The project was sponsored by SAP.

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